



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Buckeye Union High School District No. 201**

Year Ended June 30, 2003

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STATE OF ARIZONA  
OFFICE OF THE  
**AUDITOR  
GENERAL**

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**Debra K. Davenport**  
Auditor General

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## Accounting Services Division Staff

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**Michael Stelpstra**, Manager and Contact Person  
mstelpstra@auditorgen.state.az.us

**Tracy Pytlakowski**  
**Erin Castelhana**

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

November 29, 2004

Governing Board  
Buckeye Union High School District No. 201  
902 Eason Avenue  
Buckeye, AZ 85326

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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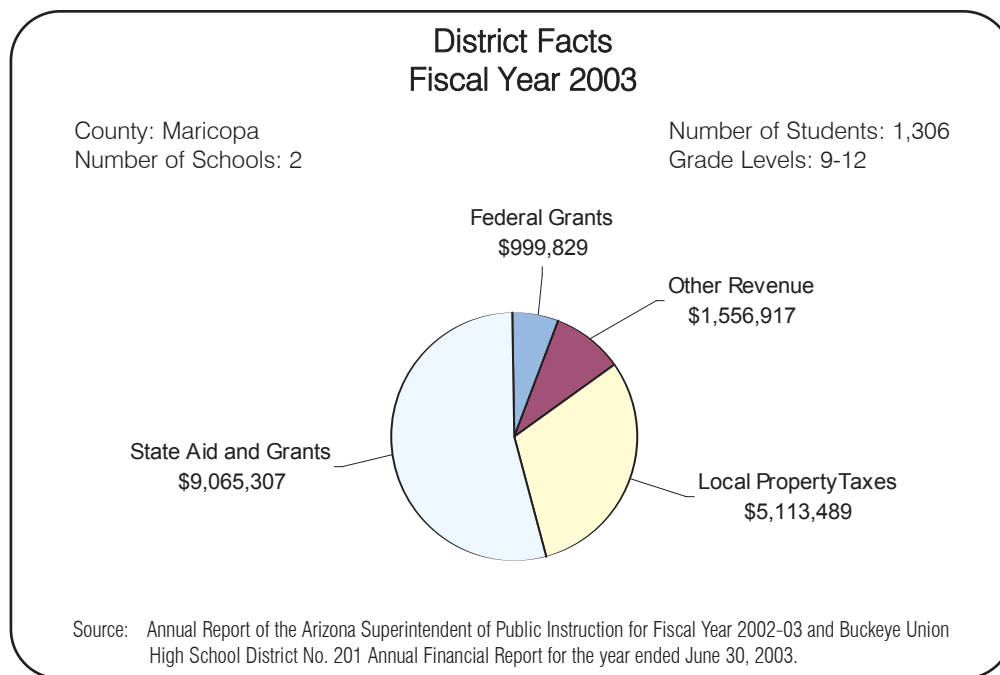


# INTRODUCTION

Buckeye Union High School District No. 201 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$16.7 million it received in fiscal year 2002-03 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District's capital assets list should be accurate and complete

The District did not maintain a current capital assets list for over \$34 million in capital assets, making the assets susceptible to loss or theft.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets. However, the District did not maintain a current capital assets list, and, as a result, its auditors issued a qualified opinion on the June 30, 2003, financial statements. In addition, the District did not perform a physical inventory in the last 3 years or reconcile items added to the list to capital expenditures or the current year's capital assets list to the prior year's list.

## Recommendations

The following procedures can help the District improve control over its capital assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Prepare and maintain a capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more, and a stewardship list of all equipment and vehicles costing between \$1,000 and \$5,000. Include all required information for all items on the lists.
- Record capital asset items at actual cost, including ancillary charges such as sales tax, delivery, installation, assembly, and other incidental costs.
- Retain cost documentation, such as purchase orders, receiving reports, and vendor invoices, to support information recorded on the capital assets and stewardship lists.
- Affix a tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify the asset on the list by some other means, such as a serial number. Tags should be prenumbered, numerically controlled, and issued sequentially.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile physical inventory results to the lists, and add items to or remove items from the lists, as necessary.
- Reconcile items added to the capital assets list to capital expenditures to ensure that all assets acquired are recorded on the list and make all necessary corrections.

The capital assets and stewardship lists should include the information described on USFR pages VI-E-2 and 3, and in USFR Memorandum No. 196.

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

- Reconcile the prior year's capital assets list to the current year's list, and make all necessary corrections.

The forms on USFR pages VI-E-13 and 14 may be used to document the reconciliation of capital assets additions to capital expenditures and the current year's capital assets list to the previous year's list.

## The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bidding threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not always issue invitations for bids or requests for proposals for purchases that exceeded the sealed bidding threshold, and generally did not obtain oral or written price quotations for purchases that required them.

The District did not always follow competitive purchasing requirements, and therefore, it could not ensure it received the best value for the public monies it spent.

## Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services that individually or in the aggregate would exceed \$32,899.
- Obtain oral price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

Guidelines for oral and written price quotations can be found on USFR page VI-G-8 and 9, and in USFR Memorandum No. 209.

## The District must maintain documentation for expenditures of Classroom Site Fund monies

The District could not demonstrate that it spent over \$372,000 of Classroom Site Fund monies as required by statute.

The Classroom Site Fund (CSF), administered by ADE, was established in fiscal year 2001-02 to account for the portion of state sales tax collections provided to school districts as additional funding for teacher salary increases and other specified maintenance and operation purposes. Districts must correctly allocate, separately account for, and spend CSF distributions in three separate funds in accordance with Arizona Revised Statutes (A.R.S.). However, the District did not maintain documentation to support how it spent these monies and, in fact, spent more in two of the funds than was allocated.

### Recommendations

The District must ensure that CSF monies are used in accordance with A.R.S. §15-977. Specifically, the District should prepare and retain documentation to support how the CSF monies it receives are spent. Also, if expenditures from these monies cause the District to exceed its CSF budget limit or the amounts allocated to the three individual funds, the District should reclassify the excess expenditures to the Maintenance and Operation (M&O) Fund or other appropriate fund by fiscal year end.

## The District's controls over cash receipts should be strengthened

Poor cash controls left district monies susceptible to theft or loss.

The District receives cash for various purposes, including extracurricular activities tax credits and food service operations. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited. However, the District did not have adequate controls over its cash receipts. Specifically, the District did not adequately separate responsibilities for extracurricular activities tax credit monies received. In addition, it could not always document that daily food service cash receipts were deposited.

## Recommendations

To help strengthen controls over monies received, the District should:

- Separate cash-handling and recordkeeping responsibilities so that an employee not responsible for receiving cash or issuing checks reconciles the bank accounts.
- Agree the total amount of food service cash receipts reported on the daily cash collection report to the validated bank deposit slip. Investigate all differences, make all necessary corrections, and retain the validated deposit slips.

## The District should strengthen controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are approved and that its expenditures are supported. However, the District did not always follow these procedures. For example, the District did not always retain purchase orders, invoices, and canceled checks for auxiliary operations expenditures or credit card receipts for other expenditures. In addition, the District exceeded its total M&O Fund budget without obtaining approval as required by statute.

## Recommendations

To strengthen controls over its expenditures, the District should follow the procedures listed below:

- Retain documentation to support all expenditures, including purchase requisitions, purchase orders, receiving reports, vendor invoices, and credit card receipts.
- Require that employees using the district credit card promptly submit receipts to the business office and indicate on them the employee making the purchase and the specific school purpose for the expenditure.
- Require that a business office employee compare the billing statement to the supporting credit card receipts and determine that the purchase represented a valid district expenditure.

- Retain all canceled checks and file them with the monthly bank statements and reconciliations.
- Obtain Governing Board approval at a public meeting as required by A.R.S. §15-905(G) before making expenditures in excess of an M&O Fund budgeted subsection.
- Obtain County Board of Supervisors' approval to exceed the total M&O Fund budget in accordance with A.R.S. §15-907.